

Message Text

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PASS: CEA, TREAS, FRB

E.O. 11652: N/A
TAGS: OECD, ECON

SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE
(EDRC) REVIEW OF ITALY

REF: (A) EDR(77)4; (B) STATE 33545; (C) ROME 2339

1. SUMMARY AND CONCLUSION: IMPRESSIVE TEAM FIELDLED BY ITALIANS FOR FEBRUARY 15 EDRC REVIEW REFLECTED GOI APPRECIATION OF FACT THAT ECONOMY IS AT CRITICAL JUNCTURE AND THAT INTERNATIONAL SUPPORT CAN BUTTRESS GOI EFFORTS TO IMPLEMENT NECESSARY, BUT POLITICALLY UNPALATABLE STABILIZATION MEASURES AT HOME. (DELEGATION LED BY LANDRISCINA OF BUDGET MINISTRY, FLANKED BY PALUMBO OF TREASURY, INCLUDED BARATTIERI OF FOREIGN TRADE MINISTRY.) MAIN POLICY CONCLUSION WAS THAT SERIES OF MEASURES PUT INTO PLACE SINCE OCTOBER, 1976 WAS IMPORTANT STEP IN RIGHT DIRECTION. HOWEVER, SECRETARIAT AND SOME
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EDRC DELS WERE SKEPTICAL AS TO WHETHER NEW POLICIES, PARTICULARLY THOSE DESIGNATED TO REDUCE LABOR COSTS, WERE ADEQUATE TO EFFECT FUNDAMENTAL IMPROVEMENT IN ITALIAN ECONOMIC SITUATION AND PROSPECTS. PALUMBO STRESSED THAT ITALIAN POLITICAL REALITIES DICTATED THAT GOI PROCEED CAUTIOUSLY, ASSURING POLITICAL AND SOCIAL CONSENSUS AT EACH STEP. HE STATED THAT RESUMPTION OF

NEGOTIATION WITH IMF (SLATED, ACCORDING TO PALUMBO, FOR END OF THIS MONTH) WAS INDICATION THAT IMF CONSIDERED ITALIAN POLICIES TO BE CORRECTLY ORIENTED. (HE ADDED, HOWEVER, THAT START-UP OF NEGOTIATIONS DID NOT IMPLY THAT IMF WOULD APPROVE STANDBY.) MOREOVER, HE SAID THAT IF PLANNED MID-YEAR REVIEW OF ECONOMIC DEVELOPMENTS SHOWED THAT PROGRESS IN REDUCING LABOR COSTS FELL SHORT OF OFFICIAL OBJECTIVES FOR 1977 (I.E., DECELERATION OF ANNUAL RATE OF INCREASE TO 16 PERCENT BY YEAR-END) GOI STOOD READY TO ADOPT ADDITIONAL MEASURES.

2. DISCUSSION OF SHORT-TERM OUTLOOK WAS LARGELY IN QUALITATIVE TERMS. ITALIANS AND SECRETARIAT AGREED THAT INFLATION WOULD DECELERATE IN 1977 AND THAT REAL GDP GROWTH WOULD BE MINIMAL. BUT, WHILE SECRETARIAT FELT THAT CURRENT ACCOUNT DEFICIT LIKELY TO MATERIALIZE IN 1977, ITALIANS STATED ACHIEVEMENT OF EQUILIBRIUM OR SMALL SURPLUS WAS A TOP PRIORITY OBJECTIVE. ITALIANS STRESSED THAT NEED TO REDRESS CURRENT ACCOUNT POSITION WAS PRIMARY CONSTRAINT ON GROWTH OF DOMESTIC DEMAND AND THAT ACHIEVEMENT OF CURRENT ACCOUNT SURPLUS THROUGH EXPORT-LED GROWTH, PARTICULARLY IMPORTANT IN VIEW OF HEAVY SCHEDULE OF PAYMENTS ON EXTERNAL DEBT (\$1.4 BILLION IN 1977, \$4 BILLION IN 1978). THUS, ITALIAN DEL LEFT IMPLICATION THAT IF NECESSARY FURTHER POLICY ACTION WOULD BE TAKEN TO ASSURE CURRENT ACCOUNT EQUILIBRIUM IN 1977.

3. EDRC HAD BRIEF DISCUSSION OF CONCLUSIONS SECTION OF LIMITED OFFICIAL USE

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REFDOC. PORTIONS U.S. WISHED TO REMOVE HAVE BEEN DELETED (SEE PARA 13). ITALIANS REQUESTED THAT SURVEY BE PUBLISHED BY END OF FEBRUARY; SECRETARIAT INDICATED THAT PUBLICATION BY THIS DATE WOULD BE POSSIBLE. END SUMMARY

4. SHORT-TERM PROSPECTS; DOMESTIC OUTLOOK: SECRETARIAT CIRCULATED ROUGH CALCULATIONS AT EDRC MEETING ILLUSTRATING POSSIBLE EVOLUTION OF ITALIAN ECONOMY IN 1977 IN LIGHT OF MECHANICAL CARRYOVER EFFECTS OF FASTER THAN EXPECTED GROWTH IN LATE 1976. FIGURES INCLUDED 1.5 PERCENT RISE IN REAL GDP THIS YEAR, 22 PERCENT INCREASE IN CONSUMER PRICES AND \$1.5 CURRENT ACCOUNT DEFICIT. THESE TENTATIVE PROJECTIONS INTENDED TO HELP STRUCTURE DISCUSSION AT EDRC MEETING AND DID NOT CONSTITUTE REVISED SECRETARIAT FORECASTS SINCE INFORMATION ON 1976 DEVELOPMENTS STILL NOT COMPLETE AND SINCE SECRETARIAT

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HAS NOT FULLY ASSESSED POSSIBLE EFFECTS OF RECENT ITALIAN MEASURES ON PROSPECTS FOR 1977. (PALUMBO REQUESTED PUBLISHED SURVEY NOT INCLUDE REVISED PROJECTIONS. IN VIEW OF TENTATIVE NATURE OF THESE NUMBERS, SECRETARIAT AGREED.) ITALIANS HAVE NOT COMPLETED OFFICIAL FORECASTS FOR 1977. THUS, SINCE NEITHER SECRETARIAT NOR ITALIANS HAD PRECISE FORECASTS TO PROPOSE OR DEFEND, DISCUSSION OF 1977 OUTLOOK WAS MAINLY ALONG QUALITATIVE LINES. SPECIFIC FIGURES IN PUBLISHED REVIEW LIKELY TO REMAIN IN TERMS OF SUGGESTING ROUGHLY ZERO REAL GROWTH AND CURRENT ACCOUNT BALANCE IN 1977.

5. ITALIANS, SECRETARIAT AND EDRC AGREED THAT KEY FACTOR INFLUENCING ECONOMIC SITUATION IN SHORT RUN WOULD BE COURSE OF INFLATION. IN THIS CONNECTION, ITALIANS NOTED THAT ALL THE CARRYOVER EFFECTS FROM 1976 WERE NOT POSITIVE, AS PICK-UP IN GDP GROWTH CARRIED WITH IT AN ACCELERATION OF INFLATION. IN PARTICULAR, ITALIANS INDICATED THAT WHILE CPI INCREASE AVERAGED 16.8 PERCENT IN 1976,
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RISE DURING THE YEAR WAS 22 PERCENT, THUS PLACING CONSUMER PRICE INDEX AT END OF 1976 AT 9.5 PERCENT ABOVE AVERAGE FOR YEAR. SIMILARLY, WHOLESALE PRICES ACCELERATE AND AT END-YEAR, PRICES STOOD 10.7 PERCENT ABOVE YEARLY AVERAGE. INFLATION RATE WAS REFLECTED IN DEPRECIATION OF LIRA; AT END OF 1976 TRADE WEIGHTED EFFECTIVE LIRA EXCHANGE RATE WAS 7 PERCENT BELOW AVERAGE FOR YEAR.

6. NOTING THAT REAL WAGE INCREASES HAD OUTSTRIPPED PRODUCTIVITY GROWTH IN 1976, ITALIANS EMPHASIZED THAT MODIFICATION OF INFLATIONARY EFFECTS OF SCALA MOBILE WOULD BE ESSENTIAL TO BREAK WAGE/PRICE SPIRAL IN 1977. THEY FELT THAT JANUARY AGREEMENT BETWEEN BUSINESS AND LABOR TO IMPROVE PRODUCTIVITY AND RECENT GOI DECISION TO "FISCALIZE" CERTAIN SOCIAL CHARGES WERE STEPS IN RIGHT DIRECTION. GOI ESTIMATES THAT "FISCALIZATION" WOULD REDUCE LABOR COSTS BY 4-5 PERCENT THIS YEAR. IN ADDITION, ITALIANS SUGGESTED THAT LARGER SHARE OF LABOR COSTS MIGHT BE FISCALIZED IN MAY TO HELP OFFSET ADDITIONAL WAGE INCREASES DUE UNDER SCALA MOBILE IN EARLY 1977. FURTHERMORE, ITALIANS SAID THAT ANTI-INFLATION DRIVE COULD BE FORTIFIED BY PROVISIONS OF FEBRUARY 4 DECREE LAW WHICH (A) EXCLUDE PRICE RISES DUE TO INCREASE IN VAT FROM SCALA MOBILE CALCULATIONS; (B) IMPOSES TAX PENALTIES ON COMPANIES WHICH GRANT-EXCESSIVE WAGE INCREASES. (ITALIANS NOTED, HOWEVER, THAT THESE MEASURES ARE SUBJECT TO RATIFICATION BY PARLIAMENT AND THAT THESE PROPOSALS WERE NOW IN CENTER OF DEBATE IN POLITICAL ARENA.)

7. SECRETARIAT EXPRESSED DOUBT THAT ITALIAN POLICIES HAD SUFFICIENT BITE TO EFFECT A LASTING IMPROVEMENT IN ITALIAN PRICE PERFORMANCE. SPECIFICALLY, SECRETARIAT NOTED THAT FACT THAT FIRMS HAD BEEN ABLE TO SUPPORT (THROUGH BORROWING OR PRICE INCREASES) SUCH HEAVY INCREASES IN LABOR COSTS WAS INDICATION THAT GOI MONETARY POLICY HAD PLAYED EXCESSIVELY ACCOMMODATIVE ROLE IN WAGE LIMITED OFFICIAL USE

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PRICE SPIRAL. SECRETARIAT ADDED THAT FISCALIZATION OF LABCR COSTS COULD SIMPLY INCREASE FIRMS ABILITY TO PAY HIGH WAGES AND THUS COULD HELP PERPETUATE WAGE/PRICE SPIRAL. IN RESPONSE, LANDRISCINA AND PALUMBO REMINDED SECRETARIAT THAT ITALY WAS "GOVERNED BY ABSTENTION" AND THAT WHILE NEED TO REDUCE GROWTH OF LABOR COSTS WAS CLEAR GOI HAD FOR TIME BEING REACHED THE LIMITS OF WHAT WAS POSSIBLE POLITICALLY. THEY ADDED THAT GOI WOULD HAVE TO MOVE CAUTIOUSLY WHERE LABOR COSTS WERE CONCERNED, TAKING CARE TO ACHIEVE SOCIAL AND POLITICAL CONSENSUS AT EACH STEP. NEVERTHELESS, ITALIANS STATED THAT THEIR GOAL WAS

TO LOWER ANNUAL RATE OF INCREASE IN LABOR COSTS FROM 28 PERCENT RECORDED IN 1975 TO 16 PERCENT BY END OF 1977; AND THAT GOI STOOD READY TO ADOPT FURTHER MEASURES TO ACHIEVE THIS OBJECTIVE IF MID-YEAR POLICY REVIEW OF RECENT DEVELOPMENTS SHOWED THAT PRESENT POLICIES WERE NOT HAVING DESIRED EFFECT. SECRETARIAT SUGGESTED THAT ALTERNATIVE TO SCRAPPING SCALA MOBILE WOULD BE TO SET DEMAND MANAGEMENT POLICIES SO TIGHT THAT BUSINESS WOULD NOT BE ABLE TO FOOT WAGE BILL, BUT ADMITTED THAT THIS ALTERNATIVE COULD ENTAIL HEAVY SOCIAL/POLITICAL RISKS AND COSTS. DESPITE THEIR DIFFERENCES CONCERNING EFFECTIVENESS OF PRESENT GOI POLICIES, SECRETARIAT AND ITALIAN AGREED THAT INFLATION RATE WOULD DECELERATE IN 1977. ITALIANS SEE 12-13 PERCENT RISE IN PRICES DURING YEAR

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AND 19-20 PERCENT AVERAGE INCREASE FOR YEAR AS A WHOLE. (SECRETARIAT SEES AVERAGE RISE OF 22 PERCENT AS LIKELY OUTCOME, ALTHOUGH AGREEING RATE OF INCREASE SHOULD BE DECLINING IN SECOND HALF OF YEAR.)

8. SECRETARIAT TENTATIVELY PROJECTS 1 PERCENT INCREASE IN REAL PRIVATE CONSUMPTION SPENDING IN 1977, WHILE ITALIANS FELT THAT PRIVATE CONSUMPTION WOULD REMAIN FLAT,

WITH PROBABLE FALL IN REAL DISPOSABLE INCOME BEING OFFSET BY EXPECTED DROP IN SAVINGS RATIO. ITALIANS ALSO SEE SOME RECOVERY OF PRIVATE INVESTMENT SPENDING DUE TO RISE OF UTILIZATION RATE IN MANUFACTURING SECTOR IN 1976. (GOI ESTIMATES THAT FIRMS WERE OPERATING AT 75 PERCENT OF CAPACITY IN FOURTH QUARTER OF 1976 VS. 68 PERCENT IN SAME PERIOD IN 1975.) IN GENERAL, ITALIANS DID NOT DISAGREE WITH SECRETARIAT'S FORECAST OF 1.5 PERCENT GROWTH IN REAL GDP IN 1977, BUT SAW STRONGER PUSH FROM EXPORT GROWTH THAN DID SECRETARIAT.

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9. CURRENT ACCOUNT: ACCORDING TO GOI ESTIMATES, SPURT IN ECONOMIC ACTIVITY IN 1976 ENTRAINED SHARP (16 PERCENT) RISE IN IMPORT VOLUMES, WHILE IMPORT PRICES INCREASED BY 25 PERCENT PRIMARILY AS RESULT OF LIRA DEPRECIATION. THUS, DESPITE STRONG GROWTH (13 PERCENT) OF EXPORT VOLUMES ITALY FINISHED 1976 WITH TRADE DEFICIT OF 2,300 BILLION LIRE AND CURRENT ACCOUNT DEFICIT OF 2,400-2,500 BILLION LIRE. ITALIANS CONTESTED SECRETARIAT VIEW THAT RISING TENDENCY OF ITALIAN EXPORTERS TO SET PRICES IN FOREIGN CURRENCY HAD DILUTED EFFECT OF DEPRECIATION ON EXPORT VOLUMES. THEY POINTED OUT THAT DEPRECIATION OF LIRA HAD ALLOWED EXPORTERS TO HOLD FOREIGN CURRENCY PRICES OF EXPORTS RELATIVELY CONSTANT IN FACE OF RISING DOMESTIC COSTS AND HAD THUS CONTRIBUTED TO GENERATING GROWTH OF EXPORT VOLUMES WHICH EXCEEDED THAT OF ITALIAN EXPORT MARKETS. SECRETARIAT ACKNOWLEDGED THAT THIS COULD WELL HAVE BEEN THE CASE, PARTICULARLY IN FOURTH QUARTER OF YEAR WHEN GROWTH OF EXPORT VOLUME ACCELERATED SHARPLY DESPITE MODERATE GROWTH OF MARKETS.

10. ITALIANS DID NOT PRESENT SPECIFIC FORECASTS FOR GROWTH OF EXPORT VOLUME IN 1977, BUT FELT THAT SECRETARIA PROJECTION (8.25 PERCENT) WAS ON LOW SIDE. WHILE SECRETARIAT AND ITALIANS SEEMED TO AGREE THAT ITALY WOULD GAIN MARKET SHARES THIS YEAR, SECRETARIAT PROJECTS 6-7 PERCENT GROWTH OF EXPORT MARKETS COMPARED WITH GOI EXPECTATION THAT MARKETS WILL GROW BY 8 PERCENT. SLOW GROWTH OF DOMESTIC DEMAND EXPECTED TO HOLD DOWN GROWTH OF IMPORT VOLUMES. (SECRETARIAT FORECASTS IMPORT VOLUME GROWTH OF 2.25 PERCENT IN 1977 VS. NEARLY 16 PERCENT IN 1977.) HOWEVER, SECRETARIAT PROJECTION OF IMPORT VOLUME GROWTH IS UPWARD REVISION OF EARLIER FORECAST (DECLINE OF 1.25 PERCENT). THIS IS, ACCORDING TO SECRETARIAT ESTIMATES, CONSISTENT WITH HIGHER EXPECTED GDP GROWTH AND IMPLIES CURRENT ACCOUNT DEFICIT OF \$1.5 BILLION IN 1977. IN CONTRAST, ITALIANS SAID THAT \$500 MILLION - \$1
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BILLION SURPLUS WAS MORE LIKELY OUTCOME AND EMPHASIZED THAT SECRETARIAT'S ESTIMATE OF CURRENT ACCOUNT DEFICIT WAS MAIN REASON FOR THEIR REQUEST THAT PUBLISHED SURVEY NOT CONTAIN REVISED SECRETARIAT PROJECTIONS. ITALIAN DELEGATION (PALUMBO) STRESSED THAT ACHIEVEMENT OF CURRENT ACCOUNT BALANCE OR SMALL SURPLUS WAS PRIORITY OBJECTIVE OF GOI AND IMPLIED THAT OF NECESSITY, FURTHER MEASURES WOULD BE TAKEN TO ENSURE THAT THIS GOAL WOULD BE REACHED. ITALIANS DID NOT EXPECT TO ENCOUNTER EXTERNAL FINANCING DIFFICULTY IN 1977 (ASSUMING MONETARY POLICY SUFFICIENTLY TIGHT; SEE PARA 12 BELOW), BUT STRESSED PARAMOUNT NEED TO GENERATE CURRENT ACCOUNT SURPLUS IN VIEW OF "HUMP" IN 1978 IN SCHEDULED REPAYMENT OF EXTERNAL DEBT.

11. FISCAL AND MONETARY POLICY: ITALIANS STRESSED THAT GOI'S CENTRAL POLICY OBJECTIVE WAS TO REDRESS CURRENT ACCOUNT POSITION BY HOLDING DOWN DOMESTIC DEMAND (ESPECIALLY PRIVATE CONSUMPTION) AND BY REDUCING UNIT LABOR COSTS. THEY NOTED THAT STABILIZATION EFFORT SHOULD BE SEEN AS PHASED PROCESS: REDUCTION OF BUDGET DEFICIT AND REFORM OF PUBLIC SECTOR FINANCES WOULD PROCEED RELATIVELY QUICKLY, WHILE INDUCING DECLINE IN LABOR COSTS WOULD TAKE MORE TIME (FOR REASONS CITED PARA 7 ABOVE). CONSISTENT WITH THIS SCENARIO, ITALIANS SAID THAT FISCAL MEASURES

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IMPLEMENTED SINCE OCTOBER WOULD BRING ABOUT REDUCTION OF 1977 TREASURY DEFICIT TO 9,800 BILLION FROM 13,600 BILLION FORECAST IN JULY, 1976. THEY ADDED THAT FIGURE FOR TREASURY DEFICIT WAS A TARGET RATHER THAN AN ESTIMATED OUTCOME, AND THAT ANY UNFORESEEN EXPENDITURES DURING 1977 WOULD BE COVERED BY TAX INCREASES. IN ADDITION, ITALIANS POINTED OUT THAT SINCE LOCAL AUTHORITIES NOW PROHIBITED FROM BORROWING AT COMMERCIAL BANKS (THEY MUST BORROW FROM FUND FOR LOANS AND DEPOSITS), TREASURY CONTROL OVER LOCAL GOVERNMENT FINANCES HAS INCREASED, AND IMPORTANT MECHANISM FOR "AUTOMATIC EXPANSION OF SPENDING" HAD BEEN ELIMINATED. FINALLY, ITALIANS OBSERVED THAT 2,450 BILLION LIRE LIMIT ON CENTRAL BANK MONETIZATION OF TREASURY DEFICIT WOULD HELP TO MINIMIZE INFLATIONARY IMPACT OF THAT DEFICIT.

12. MONETARY POLICY: ITALIANS NOTED THAT GOI HAS SET LIMIT OF 30,000 BILLION ON DOMESTIC CREDIT EXPANSION IN 1977 AND THAT CEILING TOOK ACCOUNT OF INCREASE IN LIQUID-LIMITED OFFICIAL USE

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ITY WHICH WOULD RESULT FROM TERMINATION OF IMPORT DEPOSITS PROGRAM IN APRIL. ITALIANS DID NOT INDICATE WHETHER CEILINGS ON COMMERCIAL BANK CREDITS WOULD BE CONTINUED AFTER THEIR EXPIRATION DATE OR WHETHER RECENT INCREASE IN RESERVE REQUIREMENTS HAD BEEN EFFECTED TO HELP OFFSET LIQUIDITY EFFECTS OF PHASE-OUT OF IMPORT DEPOSIT SCHEME. (BANK OF ITALY REP, LO FASO, SEEMED TO HAVE DIFFICULTY GIVING STRAIGHT ANSWERS TO DIRECT QUESTIONS.) ITALIANS EMPHASIZED THAT EXTERNAL CONSIDERATIONS WOULD NECESSITATE MAINTENANCE OF TIGHT MONETARY POLICY THIS YEAR. THEY UNDERLINED FOLLOWING POINTS: (A) NEED TO MAINTAIN POSITIVE DIFFERENTIAL BETWEEN DOMESTIC AND FOREIGN INTEREST RATES IN ORDER TO PREVENT REPAYMENT IN 1977 OF SUBSTANTIAL TRADE CREDITS ACQUIRED IN 1976. (ITALIANS ESTIMATE THAT SHORT-TERM DEBT OF COMMERCIAL BANKS ROSE FROM \$700 MILLION AT END OF 1975 TO \$3 BILLION AT END OF 1976. TOTAL MEDIUM-TERM EXTERNAL DEBT, MOST OF WHICH ATTRIBUTABLE TO BORROWING BY ENTITIES OTHER THAN COMMERCIAL BANKS STOOD AT \$14 BILLION AT END OF 1976); (B) RAPID GROWTH OF IMPORTS IN 1976 WAS PARTLY DUE TO MONETARY ACCOMMODATION OF SPECULATIVE RESTOCKING AND

AND REPEAT PERFORMANCE IN 1977 MUST BE AVOIDED. WITH
EXCEPTION OF SECRETARIAT CRITICISM NOTED PARA 7 ABOVE,
THERE WAS LITTLE COMMENT AT MEETING ON ITALIAN MONETARY
POLICY -- PAST, PRESENT, OR FUTURE.

13. FYI: EDRC HAD BRIEF DISCUSSION OF CONCLUSIONS SEC-
TION OF REFDOC. ITALIANS INDICATED THEIR INTEREST IN
PUBLIC RELEASE OF SURVEY BY END OF FEBRUARY, WHICH THEY
FELT WOULD BE HELPFUL IN TERMS OF CONTRIBUTING TO IMPOR-
TANT DEBATE ON ECONOMIC POLICY GOING ON IN ITALY IN POLI-
TICAL CIRCLES AND WITHIN PUBLIC. AS AGREED DURING
BILATERAL TALK WITH U.S. DURING LUNCH, PALUMBO REQUESTED
DELETION OF THE SENTENCES IN DRAFT CONCLUSIONS TEXT
WHICH (A) ATTRIBUTED ADVERSE EFFECTS TO LIRA DEPRECI-
ATION AND (B) SUGGESTED POSSIBLE SPECIAL ARRANGEMENTS
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5 AND 10, REF B AND IN PARA 8, REF C). MISSION UNDER-
STANDS FROM SECRETARIAT THAT THESE SENTENCES HAVE
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SECRETARIAT INTENTION IS TO SEEK EDRC APPROVAL OF REVISED DRAFT SURVEY AT FEBRUARY 24 EDRC REVIEW OF UK, AND HAS INDICATED THAT U.S. WILL HAVE OPPORTUNITY TO REVIEW CONCLUSIONS BEFORE THEY ARE SUBMITTED TO EDRC.

14. CONCERNING RECONCILIATION OF EMBASSY ROME'S AND SECRETARIAT'S ESTIMATES OF INCREMENTAL REVENUE IMPACT OF STABILIZATION PROGRAM (PARA 12, REF B), ITALIANS PUT THIS FIGURE AT 4,750 BILLION LIRE -- 3,550 LIRE IN ADDITIONAL TAX REVENUE AND 1,200 BILLION LIRE ARISING FROM INCREASED PRICES OF PUBLIC SERVICES. HOWEVER, DETAILED EXPLANATION BY ITALIANS OF BUDGETARY CHANGES WAS THOROUGHLY CONFUSING AND THEY PROMISED TO SUBMIT TABLE OF FIGURES TO SECRETARIAT. (MISSION NOW UNDERSTANDS FROM SECRETARIAT THAT SUBMISSION HAS BEEN DELAYED BECAUSE OF LACK OF AGREEMENT BETWEEN TREASURY AND BOI FIGURES. MUCH OF DISCREPANCY COULD POSSIBLY BE EXPLAINED BY FACT THAT 800 BILLION RISE IN REVENUES DERIVED FROM INCREASE IN ELECTRICITY RATES IS NOT INCLUDED IN BUDGET. WHEN LIMITED OFFICIAL USE

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RECEIVED, MISSION WILL FORWARD TABLE TO WASHINGTON AND TO ROME.)

15. QUESTIONS RAISED PARAS 8 AND 11, REF B DISCUSSED PARAS. 12 AND 7. SECRETARIAT DID NOT ADDRESS ISSUE OF WHAT ALTERNATIVES WOULD BE AVAILABLE TO ITALIANS IN 1977 IF THEIR RELATIVE COST AND PRICE POSITION WERE TO DETERIORATE (I.E., PER PARA 22, REF C) -- DESPITE U.S. INTERVENTION ON THIS POINT. HOWEVER, IT IS OBVIOUS THAT SECRETARIAT WOULD NOT SEE FURTHER DEPRECIATION OF LIRA AS FIRST CHOICE AMONG AVAILABLE POLICY ALTERNATIVES. TURNER

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Review Media Identifier:
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Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3265100
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC) REVIEW OF ITALY
TAGS: ECON, OECD
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Type: TE
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